Key Points

CONNECTICUT'S ECONOMIC COMPETITIVENESS IN SELECTED AREAS

- Older economic development models focused on attracting large employers to relocate through tax incentives; newer economic development models focus on the strengths and assets a state already possesses to create an environment for longer-term economic growth.

- Connecticut began assessing its competitiveness in the early 1990s, in the midst of an economic downturn.

- A strategy pursued to enhance competitiveness is the industry cluster initiative, developed in late 1990s.

    - Nine industry clusters have been developed, but state government support for the initiative appears to have waned.
    - Of the nine industry clusters: three expanded their economic presence in the state from 2005 to 2008, increasing the number of employers, employees, and average wages; two of the clusters improved in two of the three indicators; and all nine increased in the wage category.

- A federal and state joint effort, known as the manufacturing extension partnership, has assisted approximately half of Connecticut's 5,000 small- and medium-sized manufacturers become more productive through technological improvements and modernizing management and other operations.

- Connecticut's exporting activity has almost doubled recently, from about $8 billion in 2003 to $15 billion in 2008; but exporting activity as a percent of state gross domestic product still lags behind the national average.

- Technical assistance is provided to Connecticut businesses in a variety of ways – from providing low-rent incubator space to helping entrepreneurs with business plans – much of it through economic development partners.

- Connecticut has had many initiatives proposed to enhance its competitiveness through the years; some have been enacted into legislation, but not always implemented often due to lack of funding.

- Economic development assistance is a low priority in terms of overall resource allocation, accounting for approximately 2.5 percent of the state budget.

- Two of the three major economic development agencies – Department of Economic and Community Development (DECD), and the Connecticut Development Authority (CDA) – operate as lenders, targeting incentives primarily to individual businesses.

Key Points

- The third agency, Connecticut Innovations, Inc. (CII) , supports programs primarily focused on technology-based and start-up companies. Funding for CII programs is much less than for financial incentives through DECD or CDA.

- After declining for a couple of years, Connecticut has improved very recently in the number and value of federal Small Business Innovation Research grants awarded.

- The federal Small Business Administration also assists more traditional small businesses like retail or service establishments, with loan guarantees. Typically, more than 1,000 small businesses receive such assistance each year, but due to the recession only about 800 were helped in federal FY 08.

- Other financial assistance is provided to Connecticut businesses through the use of tax credits and tax exemptions. Many of the tax credits are available to businesses that are corporations and not limited liability corporations or partnerships.

- Many of the aspects that improve a state's capacity for the New Economy are ones that are difficult to quantify, but Connecticut's regulatory and business environment is often ranked low compared to other states.

- Measuring a state's readiness for success in the "New Economy" requires a different assessment tool. An "innovation scorecard" measures Connecticut's capacity using 30 indicators in six broad categories and the results are mixed.

- Connecticut has high research and development intensity -- federal research and development dollars per state gross domestic product -- led by strong industry-based research.

- The state's innovation capacity does not fare well, especially in the five-year trend of number of patents issued, declining 14 percent. Also, the amount of venture capital has declined since 2006, and Connecticut ranks at the bottom of the comparative states, in terms of venture capital per $1,000 of gross domestic product.

- Connecticut's tax policy issues around retail sales were examined and compared with the three bordering states: Massachusetts; New York; and Rhode Island. Connecticut's sales tax rate of 6 percent (provisionally slated to decrease to 5.5 percent) is now the lowest among the four states examined, as Massachusetts increased its rate to 6.25 percent in August 2009.

- Data from Massachusetts indicate that Sunday sales of alcohol do not increase overall sales.